

Teaser Strategy: 1+3-3+1 Bond Futures Calendar Spread

Here is a peek at the first major strategy we will cover in this course.

Details

Asset:

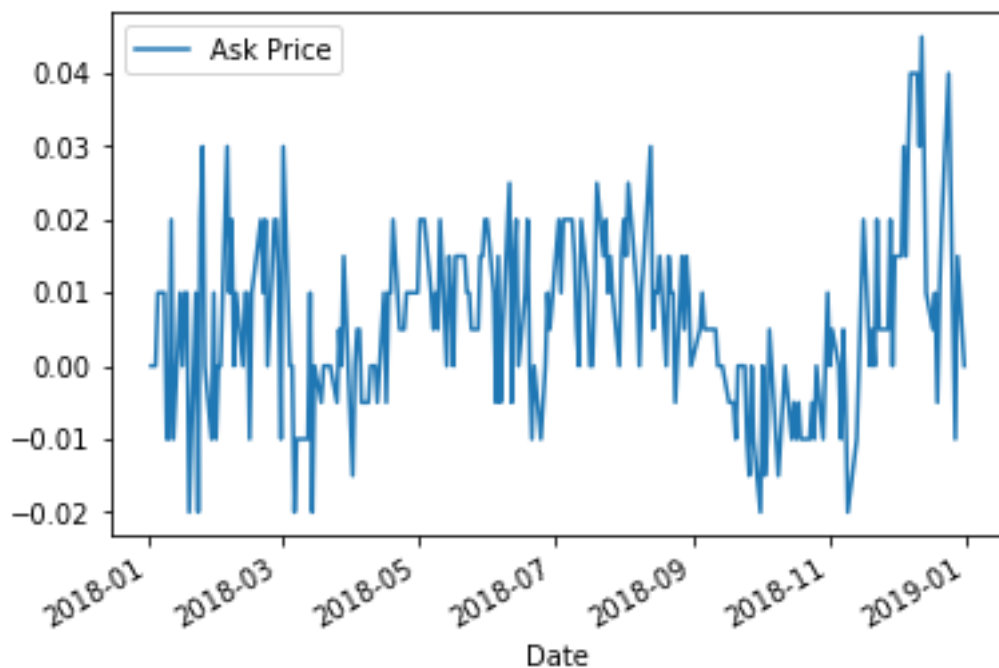
Three-month Canadian Bankers' Acceptance Futures (BAX)

Specifications: https://www.m-x.ca/f_publications_en/bax_en.pdf

Strategy:

Merge up to 5 different bond futures in a manner that is almost immune to interest rates (duration hedged).

The resulting combined asset should be stable and mean reverting. Trade this mean reversion.



The above is the combination of 4 BAX futures merged in a specific way:

- Long 1 of BAX Future 1
- Short 3 of BAX Future 2
- Long 3 of BAX Future 3
- Short 1 of BAX Future 4

These ratios are not random. They are calculated to ensure that our combined asset is not exposed to market risks.

We left out a lot of details in this lecture as it is just a teaser of what is to come. We will cover this bond futures strategy in Chapter 9, 10 and 11.